



# STATE OF CONNECTICUT

## OFFICE OF POLICY AND MANAGEMENT

Testimony of:

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Before the

Finance, Revenue and Bonding and Transportation Committees

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Thank you for the opportunity to present this testimony concerning the contract for the redevelopment and operation of the service plazas on Interstates 95 and 395 and the Merritt and Wilbur Cross Parkways. Commissioner Marie has already given you a detailed description of the project and the agreement, but there are several points that I would like to touch on.

I want to start by describing the situation which confronted the state when it began this process in 2008.

- The state's twenty year agreement with Exxon/Mobil, the fuel operator for all of the plazas, was drawing to a close. Because of a corporate decision to exit the retail gas station business, Exxon/Mobil had informed the state that it was not interested in renewing the agreement.
- The aging facilities on both the Interstates and the Parkways required either substantial renovation or replacement.
- Facilities aside, the quality and quantity of services available to the traveling public needed substantial improvements.

Faced with that situation, the Department of Transportation recommended that the State take a new approach to the service plazas. Instead of continuing business as usual, DOT proposed that the state pursue a public/private partnership with a vendor or team which would finance, build and operate the new facilities. The agreement which we are talking about today is the end result of the process.

Commissioner Marie has already provided you with a description of the process and the agreement and I am not going to repeat his testimony. But, there are several points which are of particular concern to the Office of Policy and Management that I do want to talk about.

The first involves the per gallon fee which the concession operator is required to pay to the state. It is entirely correct to say that fee goes down from eleven cents a gallon under the Exxon/Mobil agreement to an initial fee of one cent a gallon under the new agreement. Some have criticized the agreement for that reason. However, I believe that argument is flawed for a couple of reasons.

- It assumes that, even absent a capital contribution, a new fuel vendor would be willing to pay eleven cents a gallon. That wasn't the case. Based upon a review of recent contracts in other states there was no basis in fact or reality to reach that conclusion. While each transaction is different, with varying components, recent examples of payments by gasoline concession operators include one to two cents a gallon in Pennsylvania, five cents a gallon in Ohio and 4.75 cents a gallon in New York. I would also note that none of those transactions involve anything like the level of capital investment required by the Connecticut agreement. Indeed, an outside evaluator concluded that the Exxon/Mobil agreement was unlikely to be replicated and should not be used as the basis for a new agreement.
- Perhaps more importantly, such an agreement would have left the state with same tired, inadequate, facilities and services. The responsibility and the cost, of redeveloping them would have been left to the State.

Make no mistake about it, that cost of doing that would have been substantial. For example, the cost of \$150 million in state general obligation bonds would be about \$228 million over the life of the bonds, with annual payments being between nine and fourteen million dollars during the peak fifteen years. Bonding \$178 million—the same amount as the contractor's initial investment—would cost the state almost \$271.5 million over the life of the bonds, with an average annual cost of about \$13.6 million.

The second goal was to select a single vendor who would be responsible and accountable for the operation of the facilities and for their attaining the quality standards set forth in the contract. DOT believed, and I agree, that accountability for quality service was a central goal of this procurement. The agreement which was entered into last year achieves that goal.

Because the new and renovated facilities are an essential part of this agreement, the agreement includes several safeguards to ensure that the prime contractor delivers what they promised.

- The State is a third party beneficiary and has the right to enforce the Subscription Agreements which govern the equity partners' contributions to the partnership. This allows DOT to ensure that the partnership is fully capitalized and able to carry out its responsibilities.
- Before construction of each facility begins, the prime contractor is required to deposit funds in an escrow account. For the three most expensive facilities, in Milford and Darien, the prime contractor is required to deposit the entire hard construction before work begins. For the remaining service areas the prime contractor is required to deposit a portion of the part of the hard construction cost prior to the start of work, with additional deposits as the work progresses.
- Payment and performance bonds are required for construction contractors and subcontractors.
- The prime contractor is required to post a \$ five million performance bond.

Finally, I want to note that the State did not rely solely on the evaluation and analysis of state agencies. Recognizing that this was a new type and structure of deal, Matrix Capital Markets Group was engaged to evaluate the proposed deal. They concluded that the proposed agreement "provides more than

adequate consideration to the State for the use of its facilities" and recommended that the State move forward with the agreement.

In the final analysis, I don't think that anyone who travels these highways regularly, as I and many you do, would dispute the need to upgrade and maintain these facilities and the services provided at them. This agreement does that in an innovative, responsive and responsible manner.

I will be happy to answer any questions that you have.